Imperial Tobacco Company of Canada Limited
Annual Report 1968

president's report

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of the shareholders of Imperial Tobacco Company of Canada Limited will be held at the Head Office of the Company, 3810 St. Antoine Street, Montreal, Quebec, Canada, on Wednesday, April 10, 1968, at 10:30 o'clock in the forenoon, and such meeting shall be a Special General Meeting of shareholders for the purpose of considering and, if deemed advisable, sanctioning Special By-Law "Y" of the Company.

Special By-Law "Y" of the Company was enacted by the Board of Directors of the Company on January 11, 1968, and amends By-Law 27 of the Company, so as to provide that the affairs of the Company shall be managed by a Board of Directors consisting of 9 persons instead of 11.

After consideration of the aforementioned Special By-Law "Y", the business to be transacted at the Annual General Meeting shall be as follows:

(1) To receive and consider the report of the Directors, including the financial statements of the Company and the report of the Company's Auditors;
(2) To elect Directors for the ensuing year;
(3) To appoint Auditors for the ensuing year and authorize the Directors to fix their remuneration;
(4) To transact such other business as may properly come before the meeting.

In accordance with the By-Laws of the Company, the Board of Directors has chosen Tuesday, March 26, 1968 as the record date for the determination of shareholders entitled to notice of this Annual General Meeting.

DATED at Montreal this 15th day of February, 1968.

BERNARD DANSEREAU, Q.C.
Secretary

If you are unable to attend this Meeting in person, you are requested to sign and return the form of proxy enclosed herewith, in the enclosed envelope.

INFORMATION CIRCULAR

This statement is furnished in connection with the solicitation of proxies by the management of Imperial Tobacco Company of Canada Limited (hereinafter sometimes called the "Company") for use at the Annual General Meeting of shareholders of the Company to be held on Wednesday, April 10, 1968 at the Head Office of the Company, 3810 St. Antoine Street, Montreal, Quebec, at 10:30 o'clock in the forenoon for the purposes set forth in the notice of meeting.

VOTING SHARES AND PRINCIPAL OWNERS THEREOF

The Company has, issued and outstanding, 9,670,532 voting common shares without nominal or par value and 1,223,343 6% cumulative preference shares. The holders of the 6% cumulative preference shares have no right to attend or vote at meetings, unless the dividend upon the shares or any of them is and so long as it is one month in arrear or the meeting is convened for increasing or reducing the capital or winding up or sanctioning the sale of the undertaking or altering the regulations of the Company. As one of the purposes for which the meeting is called is to amend the by-laws of the Company, the holders of the 6% cumulative preference shares are entitled to vote thereat. Subject to the foregoing, each share registered in a shareholder's name on the date of the meeting entitles him to one vote.

As at February 15, 1968, British American Tobacco Company Limited beneficially owned 4,275,604 common shares without nominal or par value of the Company representing 44% of the outstanding voting common shares without nominal or par value of the Company and 275,080 6% cumulative preference shares of the par value of $4.86⅔ each of the Company representing 22% of the outstanding 6% cumulative preference shares, and Tobacco Securities Trust Company Limited beneficially owned 1,382,000 common shares without nominal or par value of the Company representing 14% of the outstanding voting common shares. To the knowledge of the directors and senior officers of the Company, no other person beneficially owns directly or indirectly more than 10% of the said outstanding common shares or of the said outstanding 6% cumulative preference shares of the Company.

ELECTION OF DIRECTORS

The following are the names of the persons for whom it is intended to vote for their election as directors pursuant to the proxy which is hereby solicited: P. R. Austin, W. H. Booth, Bernard Dansereau, T. E. Hawkins, H. W. Joly, D. E. Kearney, John M. Keith, Leo C. Laporte, Paul Paré, all of whom are full-time employees of the Company.

The term of office for each director is from the date of the meeting at which he is elected until the annual general meeting next following or until his successor is elected or appointed. In the event that any vacancy occurs in the said list of nominees, it is intended that discretionary authority shall be granted to vote the proxy for the election of any other person or persons as directors.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

Name & Principal Occupation	Year first became a Director	Number of shares of Company beneficially owned directly or indirectly as at February 15, 1968	
		Common	Preference
P. R. Austin General Manager, Manufacturing Division. Has been a senior official in the Manufacturing Division for a period in excess of the 5 preceding years	1967	110	—
W. H. Booth Vice-President. Has been a senior official in the Finance Division for a period in excess of the 5 preceding years	1966	80	—
Bernard Dansereau, Q.C. General Counsel and Secretary. Has been General Counsel since 1963 and Secretary since 1966	1964	100	—
T. E. Hawkins Vice-President. Has been a senior official in the Diversification or Administration Divisions for a period in excess of the 5 preceding years	1965	10	—
H. W. Joly President of B. Houde & Grothé Ltd. and of Peter Jackson Tobacco Ltd. for a period in excess of the 5 preceding years	1967	50	—
D. E. Kearney Vice-President. Has been a senior official in the Leaf Division for a period in excess of the 5 preceding years	1964	146	—
John M. Keith President. Has been President or Executive Vice-President for a period in excess of the 5 preceding years	1947	451	1
Leo C. Laporte Vice-President of the Research and Development Division for a period in excess of the 5 preceding years	1962	185	—
Paul Paré Executive Vice-President. Has been Executive Vice-President, Vice-President or a senior official in the Marketing Division of the Company for a period in excess of the 5 preceding years	1964	50	—

NOTE: Each of the nominees has served as a director since the year he first became a director.

REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate direct remuneration paid or payable by the Company or its consolidated subsidiaries to the directors and senior officers of the Company during the financial year ended December 31, 1967, amounted to $584,000. The estimated aggregate cost to the Company or its subsidiaries in the said financial year of all pension benefits proposed to be paid under the Company's retirement plans to senior officers of the Company and to the directors who participate in such plan in the event of retirement at normal retirement age was $78,000.

VOTING OF PROXIES

A SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON (WHO NEED NOT BE A SHAREHOLDER) TO ATTEND AND VOTE FOR HIM AND ON HIS BEHALF AT THE MEETING OTHER THAN THE PERSONS DESIGNATED IN THE ENCLOSED FORM OF PROXY. TO EXERCISE THIS RIGHT THE SHAREHOLDER MAY INSERT THE NAME OF THE DESIRED PERSON IN THE BLANK SPACE PROVIDED IN THE PROXY AND STRIKE OUT THE OTHER NAMES, OR MAY SUBMIT ANOTHER APPROPRIATE PROXY.

The shares represented by the proxy will be voted.

The form of proxy confers discretionary authority with respect to amendments or variations to matters identified in the notice of meeting and any other matters which may properly come before the meeting.

It is not intended to use the proxy for the purpose of voting upon the Company's financial statement for the financial year ended December 31, 1967, and the reports of the directors and auditors thereon.

A shareholder executing the enclosed form of proxy has the power to revoke it at any time before its exercise by instrument in writing deposited with the Secretary of the Company.

APPOINTMENT OF AUDITORS

It is intended to vote the proxies hereby solicited to re-appoint Deloitte, Plender, Haskins and Sells, the present auditors, as auditors of the Company to hold office until the next Annual General Meeting of shareholders and to authorize the directors to fix their remuneration.

OTHER MATTERS

The management knows of no matters to come before the meeting of shareholders other than the matters referred to in the notice of meeting. Should any other matters properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

DATED at Montreal this 15th day of February, 1968.

BERNARD DANSEREAU, Q.C.
Secretary

RÉMUNÉRATION DES DIRIGEANTS ET AUTRES MEMBRES DE LA DIRECTION

La rémunération totale directe versée ou payable par la compagnie ou ses filiales consolidées aux administrateurs et membres de la direction de la compagnie durant l'exercice terminé le 31 décembre 1967 s'est élevée à $584,000.

Le montant total estimatif que la compagnie ou ses filiales auraient à verser en prestations de pensions pour ledit exercice, en vertu des régimes de pensions de la compagnie, à ses membres de la direction et à ses administrateurs en cas de retraite à l'âge normalement prévu, se chiffre par $78,000.

VOTE PAR PROCURATION

TOUT ACTIONNAIRE A LE DROIT DE NOMMER UNE PERSONNE (PAS NÉCESSAIREMENT UN ACTIONNAIRE) AUTRE QUE CELLE QUI EST DÉSIGNÉE À LA FORMULE DE PROCURATION CI-JOINTE, POUR ASSISTER ET VOTER POUR LUI ET EN SON NOM À L'ASSEMBLÉE. POUR EXERCER CE DROIT L'ACTIONNAIRE PEUT INSÉRER LE NOM DE LA PERSONNE CHOISIE DANS L'ESPACE LAISSÉ EN BLANC DANS LA PROCURATION ET RAYER LES AUTRES NOMS, OU PRODUIRE UNE AUTRE PROCURATION CONVENABLE.

La procuration servira au vote des actions qu'elle représente.

La procuration confère un pouvoir discrétionnaire à l'égard des amendements ou changements qui pourront être proposés à l'ordre du jour dans la convocation à l'assemblée ou de toutes autres matières qui pourront être soumises régulièrement à ladite assemblée.

On n'a pas l'intention d'utiliser la procuration pour l'approbation par voie de vote des états financiers de la compagnie pour l'exercice terminé le 31 décembre 1967 et des rapports des administrateurs et des vérificateurs de comptes concernant ces états.

Tout actionnaire ayant donné procuration au moyen de la formule ci-jointe peut la révoquer en tout temps avant qu'elle n'ait servi au vote, par avis écrit remis au secrétaire de la compagnie.

NOMINATION DES VÉRIFICATEURS DE COMPTES

On a l'intention d'utiliser les procurations sollicitées par les présentes pour nommer de nouveau Deloitte, Plender, Haskins et Sells, les vérificateurs de comptes actuels jusqu'à la prochaine assemblée annuelle des actionnaires et d'autoriser les administrateurs à déterminer les honoraires de ceux-ci.

AFFAIRES NOUVELLES

La direction n'est au courant d'aucune autre affaire qui puisse être soumise à l'assemblée des actionnaires que celles dont il est question dans la convocation. Si toute autre affaire est soumise en bonne et due forme à l'assemblée, la procuration ci-jointe servira à voter sur ladite affaire selon le bon jugement de la personne ou des personnes qui voteront en vertu de la procuration.

DATÉE à Montréal ce 15e jour de février 1968.

Le secrétaire,
BERNARD DANSEREAU, c.r.

Imperial Tobacco Company of Canada Limited
and Subsidiary Companies

The year at a glance

Consolidated net earnings	amount for year	$12,382,000
	compared to previous year — decrease	359,000
Income taxes	amount for year	12,664,000
	compared to previous year — increase	1,072,000
Earnings per common share	amount for year	1.24
	compared to previous year — decrease	.04
Investments in non-consolidated subsidiaries, including loans and advances	amount at beginning of year	14,821,000
	increase during year	15,743,000
	amount at end of year	30,564,000
Retained earnings	amount at beginning of year	57,051,000
	added during year	4,254,000
	amount at end of year	61,305,000
Working capital	amount at beginning of year	89,663,000
	decrease during year	9,945,000
	amount at end of year	79,718,000
Dividends	amount for year on	
	6% cumulative preference shares	353,000
	common shares (rate per share 80¢)	7,736,000
	all shares	8,089,000

The figures set out on this page provide a quick glance at the results for the year 1968. More comprehensive information appears in the financial section.

To the shareholders:

The past year was one in which Imperial Tobacco increased its share of markets, made a substantial entry into the food industry in the United States, reorganized its senior management to better meet the needs of its developing multi-divisional operations, and expanded its activities in many directions including research.

While there had been modest sales volume increases in recent years in keeping with the growth of the overall market, during 1968 for the first time in 15 years the Company saw increases in the share of the market held by all its tobacco products. Industry-wide cigarette sales declined about two percent from 1967, but the Company's cigarette sales declined at a somewhat lesser rate. Overall sales volume of all tobacco products increased owing to higher volume in other products, notably cigars and cut tobaccos.

Consolidated sales of Imperial Tobacco and its wholly-owned subsidiaries were $416,803,000, a new high, up from $393,315,000 in 1967. Operating profits rose by 2.9% from $24,333,000 to $25,046,000, but net earnings were $12,382,000, down moderately from the net earnings of $12,741,000 in 1967 owing to the addition of a surtax on corporate income tax and an increase in non-allowable expenses.

Dividends totalled 80 cents per common share, unchanged from last year, and maintained the Company's record of uninterrupted dividend payments since its incorporation in 1912.

The sales decline in cigarettes, which affected the industry most severely during the first half of the year, was caused by the tax increase imposed by the federal government in November 1967 and more particularly by the tax increases imposed by five provinces in March 1968. There was some recovery during the latter half of the year, but this was insufficient to bring total cigarettes sales back to 1967 levels.

Two major acquisitions in the United States have set our feet firmly upon a new path in diversification, the food industry, in which we can apply our wide experience of distribution and marketing.

The acquisition of S and W Fine Foods Inc. of California was announced in late 1968 by Innotron International Limited, our subsidiary company charged with investigating opportunities for diversification.

S and W was acquired from the Di Giorgio Corporation for $21,000,000 (U.S.) plus an option of 375,000 shares of Innotron stock exercisable when that company has a public issue of its stock.

On January 20, 1969, we announced the signing of an agreement to negotiate for the purchase of the Uddo & Taormina group of companies in New Jersey, Louisiana and California.

S and W has annual sales of well over $50,000,000 per year, and Uddo & Taormina is approximately equal in size and significance. These companies produce and market wide varieties of canned and specialty foods. The two acquisitions constitute a large new addition to our corporate family.

Tobacco taxes

Governments continue to collect very large sums in taxes on tobacco products. Federal excise taxes collected in 1968 from the industry were an estimated $555,000,000, up by about 10% from the $505,000,000 collected in 1967. Provincial governments received an estimated $148,000,000 during 1968, up by a staggering 74% from the $85,000,000 collected during 1967.

On January 21, 1969, we announced a new arrangement of our corporate structure designed to meet the needs of our developing multi-divisional operations.

The Imperial Tobacco Company of Canada Limited continues as the governing company. It now consists of a small group of management executives and staff whose task is to set objectives for the corporate group of companies, give constructive direction and monitor results.

A new company was formed called Imperial Tobacco Products Limited. This company brings together all the tobacco operations including leaf purchasing and processing, manufacturing, distribution and marketing, and is the major operating division of the group.

Our other Canadian interests form the second operating division.

A third division encompasses our recent acquisitions in the food industry in the United States.

Among our cigarette brands, Peter Jackson cigarettes showed an increase of some 30% in sales volume during 1968. A successful promotional program was built around cash awards, yet overall marketing costs decreased from the previous year.

The Player's brand family underwent a complete visual redesign during 1968. All Player's packages, wraps and advertisements were modernized, using a brighter blue color to identify the "family" and retaining the famous sailor's head symbol, one of the oldest trade marks in the world.

Old Port cigars made significant gains in their share of the market, and two out of every five cigars sold in Canada are now from that family. Paced by Old Port cigarillos, small cigars showed an industry-wide sales volume increase of 25% in 1968 as compared with 1967.

During 1968 General Cigar Company, our cigar manufacturing subsidiary, launched Columbia Tips coffee-flavored cigarillos which are a product of our Montreal research centre and our leaf department.

World championships

The 1968 du Maurier International ski competition, held at Rossland, B.C., in late March was a triumph for Canada's own Nancy Greene, whose victory on the closing day of the competition assured her World Cup championship. Competitors from 11 nations praised the du Maurier International as the best-organized of the 18 events in the World Cup competition series.
In September, Player's sponsored the Grand Prix auto race at Le Circuit Mont Tremblant/St. Jovite. The Right Honorable Pierre Elliott Trudeau, Prime Minister of Canada, opened the race which drew an estimated 45,000 spectators and received international publicity.

Fine cut tobaccos, used by "roll your own" smokers, and pipe tobaccos also showed moderate increases in sales volume.

A new pipe tobacco, Black Watch, was launched in September in both regular and aromatic blends. It is packaged in a distinctive plastic pouch in Black Watch tartan colors. Advertising for Black Watch has featured the monument in Scotland commemorating the famous regiment's founding in 1739.

During 1968 the Company was first into the Canadian market with two product innovations: cigarettes using the Strickman filter, and "compacts" which are shorter than regular lengths.

The race to become the world's first manufacturer marketing a Strickman filter brand was triggered by our signing a licensing agreement with the Strickman Foundation on February 14, 1968. There followed ten weeks of intensive teamwork by research, manufacturing, packaging and marketing people which culminated with the introduction of Richmond cigarettes to the Canadian market on April 30.

Canadian consumers, however, have traditionally shown little preference for high filtration (low tar and nicotine) cigarettes. At year end, Richmond and a competitive Strickman filter brand, introduced later, shared approximately one percent of the Canadian cigarette market.

In another direction, the Company introduced Canada's first "compact" cigarette, Player's No. 6, in March 1968 and has since marketed Cortina, a short cigarette in the du Maurier family. These brands sell at a suggested retail price below that of regular lengths.

Smoking and health

At year end the Ontario flue-cured tobacco auctions were well underway and growers were expressing satisfaction with the prices being paid for high grades of leaf.

From the buying companies' viewpoint, 1968 was the second crop year in which growers tried to meet the buyers' estimates of leaf requirements. However, climatic conditions reduced the yield, so the supply will likely fall somewhat short of meeting both domestic and overseas needs.

The Company grew and harvested 55 acres of flue-cured leaf on its new experimental farm at Glen Martin, Prince Edward Island, as the farm's first crop. Operations at this farm are stimulating new interest in tobacco growing in the Maritime provinces, all of which have seen increases in the number of farms growing tobacco and in overall acreage.

In Quebec, cigarette tobacco growing is concentrated in the Joliette area. In one day in October, 128 crops totalling some 8,300,000 pounds were sold during a 16-hour period.

In September, the Company signed a two-year collective agreement with the Tobacco Workers' International Union covering about 3,000 employees in seven locations.

While the wage increases negotiated under these new agreements are in excess of those suggested by the federal government, the increases negotiated in 1965 under the previous collective agreements in retrospect fell below national averages for the three years of the duration of those agreements. Over the five-year period, the increases are in line with both government suggestions for wage increases and the national average for negotiated increases.

The Company continues to encourage employees to increase their education and learn new skills, and provides financial assistance to enable them to do so.

Besides the ongoing on-the-job training to equip our men and women with the skills required as new machinery and techniques are installed in plants and offices, we are continuing and widening the Company's educational programs.

The Company is responding to the attacks of anti-smoking groups with reason and scientific facts.
After more than a decade of intensive activity, the case against smoking rests essentially on statistical studies. The use of such data as proof of cause and effect relationship has been rejected by reputable members of the medical and scientific community.
We assure the public health authorities as well as the many millions who enjoy cigarettes that we shall continue to lend all possible material support to research efforts in order to answer health questions that have been raised.

Growers' Wine Company Limited and its wholly-owned subsidiaries expanded their share of the market in Western Canada during 1968. Castle Wines Ltd, owned by Growers' Wine, opened new facilities at its Moose Jaw, Saskatchewan, winery which nearly doubled production capacity, and it is now expanding its plant at Victoria, B.C.

Beau Chatel Wines Limited doubled its share of the Ontario market and is enjoying particular success with two new brands: Vino Buono, an Italian-type dry red wine, and Vinho Rosa, a Portuguese-type medium dry rosé, the only wine of its type being made in Canada.

United Cigar Stores Limited continued to expand its Inclination chain, is now operating some 65 tobacco counter concessions in discount department stores, and is making increasing use of kiosks in shopping plazas.

The moving of tobacco products from inside conventional stores to kiosks in main traffic areas in shopping plazas, and conversion of cigar stores to Inclination shops, have shown excellent results, bringing greatly increased sales of tobacco items and higher gross revenue per unit of store space.

Towards bilingualism

Employees have shown great interest in French and English conversation courses. Last year, evening language courses on Company premises were introduced. More than 140 staff employees from Main Office (about one-third of the staff) registered for these courses while about 70 from plants are attending similar courses during 1968-69. For the last five years we have provided attractive opportunities for employees to take these language courses and this new initiative has proved to be most popular in helping to develop fluency in the two languages.

Canada Foils, Limited's aluminum strip casting mill, which has been under construction at Bracebridge, Ontario, is nearing completion and its new processes are coming 'on stream' as scheduled. This mill will supply aluminum strip from ingot for the company's foil and flexible packaging manufacturing operations in Toronto, as well as for other customers.

Two former directors of the Company are no longer on the Board of Directors. Henri W. Joly, scheduled to retire about mid-year, chose to resign from the Board to obviate the necessity of naming a replacement soon after the new Board would be named. T. Earl Hawkins decided to enter the field of management consulting, in which he is well known and highly regarded.

Both these experienced men will continue to be available to us as consultants. I wish to thank them for their long and valuable service to the Company.

Bernard Dansereau, Q.C., a director of the Company and its general counsel, now serves as vice-president and continues to head the legal and secretarial division of the Company. In January 1969 Norman J. Flynn was appointed Secretary of the Company.

The pressures of doing business in a highly competitive industry, and particularly one which today is frequently misrepresented to the public, continue to place great demands on all our employees. Their interest, enthusiasm and loyalty are the most important resources upon which we can call in meeting the needs of today and the challenges of tomorrow, and we greatly appreciate their diligence in support of all the Company's activities.

On behalf of the Board of Directors,

John M. Keith

Montreal, February 20, 1969.

President

Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire, case postale 6500, Montréal 101, Québec.

Imperial Tobacco Company of Canada Limited
Annual Report 1968

financial results

Directors	Peter R. Austin	
	William H. Booth	
	Bernard Dansereau, Q.C.	
	T. E. R. Hawkins	
	Henri W. Joly	
	D. Edward Kearney	
	John M. Keith	
	Leo C. Laporte	
	Paul Paré	
Officers	John M. Keith	*president*
	Paul Paré	*executive vice-president*
	Peter R. Austin	*vice-president*
	William H. Booth	*vice-president*
	T. E. R. Hawkins	*vice-president*
	D. Edward Kearney	*vice-president*
	Leo C. Laporte	*vice-president*
	L. Edmond Ricard	*vice-president*
	Clifford Warren	*vice-president*
	Bernard Dansereau, Q.C.	*general counsel and secretary*
	Matthews Glezos	*treasurer*
	R. A. Hillhouse	*comptroller*
	George G. Ross	*comptroller*
	Pierre Roberge	*assistant secretary*
	Deloitte, Plender, Haskins & Sells	*auditors*
	Touche, Ross, Bailey & Smart	*accounting consultants*
	Crown Trust Company, Montreal The Royal Trust Company, Halifax, Toronto, Calgary, Vancouver	*transfer agents*
	Montreal Trust Company, Halifax National Trust Company, Limited, Montreal, Toronto, Vancouver The Royal Trust Company, Calgary	*registrars*
	Montreal, Toronto, Vancouver and London, England	*stock exchange listings*

Comments on the Year's Operations

The consolidated financial statements have been prepared on the same basis as last year. Not consolidated was a new wholly-owned subsidiary, Redwood Food Packing Co. of Redwood, California, which was purchased on 31st December 1968 from S and W Fine Foods, Inc. of San Francisco. Over 99% of S and W Fine Foods Inc.'s outstanding shares were acquired on 3rd January 1969. With new acquisitions in different industries, in another country, the problems of replacement cost accounting for fixed assets become much more complex. It is therefore planned to return to accounting for these assets at historical cost in 1969. Interim reports during 1969 will reflect this change.

Consolidated earnings

Consolidated net sales at $416,803,000, the highest sales level in the Company's history, were 6% over the 1967 figure of $393,315,000 reflecting a modest increase in cigarette sales and significant increases in cigars and tobaccos. By contrast, earnings from operations increased only 1.4% from $22,786,000 to $23,116,000 mainly due to the increased rate of excise taxes which came into effect near the end of 1967.

Income from investments in non-consolidated subsidiaries and their results are shown below:

Canada Foils, Limited	1968	1967
Sales	$10,910,000	$10,977,000
Net earnings (loss)	(262,000)	278,000
Imperial Tobacco —		
Portion of earnings (loss)	(261,000)	277,000
Dividends received	129,000	142,000

Growers' Wine Company Limited	1968	1967
Sales	$ 4,462,000	$ 3,895,000
Net earnings	118,000	106,000
Imperial Tobacco —		
Portion of earnings	66,000	58,000
Dividends received	1,000	7,000

It will be noted that Growers' Wine Company Limited continued to make satisfactory progress but the results from Canada Foils, Limited were disappointing; sales were maintained but high costs were incurred during the break-in period of new plant and equipment.

Consolidated earnings before income taxes at $25,046,000 were up over last year by $713,000 or 2.9%. However, earnings after taxes at $12,382,000 showed a decrease of $359,000 or 2.8%. The increased tax rate is primarily due to the incidence of surtax and increased non-allowable expenses.
After making full allowance for dividends on preferred shares, earnings per common share were $1.24 compared to $1.28 for 1967.

Consolidated retained earnings

After revaluation of fixed assets at 31st December 1968, a transfer of an additional $1,253,000 was needed to bring accumulated depreciation to the required level. A charge of $1,465,000 resulted from the loss on the sale of fixed assets, and the capital increment of $2,844,000 applicable to those assets was transferred to retained earnings.
Regular dividends were paid during the year on the 6% cumulative preference shares.
A final dividend of 10¢ per share has been declared payable 31st March 1969, making total dividends of 80¢ per common share, the same as was paid for last year.
After the above and other minor adjustments and making full provision for all dividends, retained earnings increased by $4,254,000.

Balance sheet

Cash and marketable securities decreased by $16,773,000 mostly due to diversification activities. Accounts receivable were higher by $8,945,000 reflecting the difference in the 1967 and 1968 sales patterns, the federal budget of 30th November 1967 having triggered heavy pre-budget sales whilst 1968 was not affected in a similar manner.
Current liabilities were affected by an increase in income, excise and other taxes of $1,055,000. Accelerated income tax payments reduced the liability by about $1,100,000, but federal excise and sales taxes were increased by approximately $2,100,000 because of the heavier sales in December 1968.
Working capital decreased by $9,945,000 as explained in detail in the consolidated statement of source and application of funds.
Loans to non-consolidated subsidiaries increased by $8,530,000 mainly to provide funds for the new Canada Foils, Limited plant at Muskoka, and investments in non-consolidated subsidiaries increased by $7,213,000 due almost entirely to the purchase of Redwood Food Packing Co.
Fixed assets were $2,852,000 lower than the previous year principally due to disposals amounting to $2,361,000 of land, building and equipment no longer required for operations.

General

Following declaration of the final dividend on common shares for 1968, the first interim for 1969 of 17½ cents per share was declared payable 31st March 1969.

Consolidated Earnings (note 1)

	1968	1967
Net sales	$416,803,000	$393,315,000
Federal sales and excise taxes and excise duty	233,994,000	216,845,000
Manufacturing costs, merchandising and general expenses (note 3)	154,919,000	148,650,000
Depreciation (note 2)	4,774,000	5,034,000
Total cost of operations	393,687,000	370,529,000
Earnings from operations	23,116,000	22,786,000
Income from investments in non-consolidated subsidiaries (note 1)	130,000	149,000
Income from other investments	1,868,000	1,466,000
	25,114,000	24,401,000
Interest on funded debt	68,000	68,000
Earnings before income taxes	25,046,000	24,333,000
Income taxes	12,664,000	11,592,000
Net earnings for the year	$ 12,382,000	$ 12,741,000

Consolidated Retained Earnings (note 1)

	1968	1967
Retained earnings 1st January	$ 57,051,000	$ 51,305,000
Net earnings for the year	12,382,000	12,741,000
Additional depreciation requirement (note 2)	(1,253,000)	276,000
Net loss on disposal of fixed assets	(1,465,000)	(439,000)
Capital increment applicable to disposal of fixed assets	2,844,000	2,186,000
Premium, brokerage and tax on 6% cumulative preference shares purchased	(22,000)	(138,000)
Transferred to capital surplus (note 7)	(143,000)	(545,000)
Write-off of goodwill	—	(233,000)
	69,394,000	65,153,000
Dividends (note 4)	8,089,000	8,102,000
Retained earnings 31st December	$ 61,305,000	$ 57,051,000

The notes to the consolidated financial statements form an integral part of these statements.

Imperial Tobacco Company of Canada Limited and Subsidiary Companies
31st December 1968

Consolidated Balance Sheet (note 1)

		1968	1967
Current assets	Cash and term deposits	$ 6,549,000	$ 10,182,000
	Marketable securities		
	(market value $163,000; 1967 — $13,349,000)	163,000	13,303,000
	Accounts receivable less allowance for doubtful accounts	25,989,000	17,044,000
	Leaf tobacco and other inventories (at average cost)	82,109,000	82,608,000
	Total Current Assets	114,810,000	123,137,000
Current liabilities	Accounts payable and accrued liabilities	10,086,000	9,521,000
	Income, excise and other taxes	23,951,000	22,896,000
	Provision for dividends (note 5)	1,055,000	1,057,000
	Total Current Liabilities	35,092,000	33,474,000
Working capital (Net current assets)		79,718,000	89,663,000
Other assets	Loans and advances to non-consolidated subsidiaries	11,033,000	2,503,000
	Investments in non-consolidated subsidiaries (at cost)	19,531,000	12,318,000
	Other investments (at cost)	1,187,000	1,021,000
	Special refundable tax	—	359,000
	Prepaid expenses and deferred charges	1,370,000	1,345,000
	Fixed assets (note 2)	45,141,000	47,993,000
	Goodwill, trade marks and patents (at nominal value)	1,000	1,000
Excess of assets over current liabilities		157,981,000	155,203,000
Other liabilities	3% sinking fund debentures (maturing 1st March 1970)	2,261,000	2,261,000
	Accumulated income tax reductions applicable to future years	1,639,000	2,125,000
		3,900,000	4,386,000
Excess of assets over liabilities		$154,081,000	$150,817,000
Provided by: Shareholders' risk capital	Paid up share capital (note 6)	54,183,000	54,326,000
	Capital increment (note 2)	36,393,000	37,383,000
	Capital surplus (note 7)	2,200,000	2,057,000
	Retained earnings	61,305,000	57,051,000
		$154,081,000	$150,817,000

Approved by the Board:
John M. Keith, Director
W. H. Booth, Director

The notes to the consolidated financial statements form an integral part of these statements.

Notes to the Consolidated Financial Statements

1. Principles of consolidation and related information

The consolidated financial statements include the accounts of Imperial Tobacco Company of Canada Limited and all wholly-owned subsidiaries, except Redwood Food Packing Co. It is considered impractical at this time to consolidate Canada Foils, Limited and Growers' Wine Company Limited which are not wholly owned, and Redwood Food Packing Co., a former wholly-owned subsidiary of S and W Fine Foods Inc., which was purchased 31st December 1968. At the same date, the Company had an outstanding commitment to purchase 99% of the outstanding shares of S and W Fine Foods Inc. for the sum of $11,046,000 which commitment has since been fulfilled.

The earnings of non-consolidated subsidiaries have been included in the consolidated accounts only to the extent of dividends received.

In respect of non-consolidated subsidiaries, the Company's proportion of (a) the loss for the year ended 31st December 1968 amounted to $196,000 and (b) the net increase in retained earnings since acquisition to 31st December 1968 amounted to $704,000.

2. Fixed assets and depreciation

a) Depreciation charged against earnings for the year and accumulated depreciation to date are based on replacement cost both in the consolidated statements and in the books of the individual companies. The same rates applied to historic costs would have given rise to a charge for the year of $3,963,000 (1967 — $4,135,000) and accumulated to date of $39,394,000 (1967 — $39,198,000).

b) Additional depreciation requirement of $1,253,000 in respect of prior years, arising from current year's increase in replacement cost, has been charged to retained earnings (1967 — $276,000 reduced requirement transferred to retained earnings).

c) Fixed assets are recorded in the books of the companies at historic cost and are shown at replacement cost only on consolidation.

d) The replacement value of the Hamilton Plant at 31st December 1968 has been adjusted so that net fixed assets include, for this property, the stated price in an agreement of purchase and sale to be given effect to in 1969.

e) Except as noted in (d) the replacement cost of fixed assets is based on appraisals made as at 31st December. For 1968, buildings were appraised at replacement cost and land at current market value by Canadian Appraisal Company Limited. Machinery and equipment were valued at replacement cost by company officials utilizing price indexes obtained from the Dominion Bureau of Statistics and, where necessary, price indexes based on government and industry studies in other countries. On consolidation the use of replacement cost gives rise to an increase in fixed assets before depreciation of $36,393,000 (1967 — $37,383,000) which is reflected in capital increment.

f) The effects of the foregoing are summarized as follows:

	1968	1967
Land, buildings and equipment at historic cost	$ 75,787,000	$ 78,044,000
Capital increment	36,393,000	37,383,000
Replacement cost	112,180,000	115,427,000
Less: Accumulated depreciation 1st January	67,434,000	66,371,000
Accumulated depreciation on disposals during year	(6,422,000)	(3,695,000)
Depreciation for the year	4,774,000	5,034,000
Additional depreciation requirement transferred from retained earnings (1967 — the reverse)	1,253,000	(276,000)
Accumulated depreciation based on replacement cost	67,039,000	67,434,000
Fixed assets	$ 45,141,000	$ 47,993,000

Notes to the Consolidated Financial Statements

3. Manufacturing costs, merchandising and general expenses

Included in this item is the amount of $638,000 (1967 — $584,000) for total remuneration paid to directors and senior officers, all of whom were full time employees of the company.

4. Dividends

Dividends of Imperial Tobacco Company of Canada Limited:	1968	1967
On 6% cumulative preference shares	$ 353,000	$ 366,000
On common shares:		
Four interim dividends totalling 70 cents per share	6,769,000	6,769,000
Provision for final dividend for year of 10 cents per share	967,000	967,000
	$ 8,089,000	$ 8,102,000

5. Provision for dividends

Provision for dividends of Imperial Tobacco Company of Canada Limited:		
Accrued on preference shares	$ 88,000	$ 90,000
Final for year on common shares	967,000	967,000
	$ 1,055,000	$ 1,057,000

6. Paid up share capital

		1968	1967
6% cumulative preference shares par value $4.86⅔ each			
Authorized and issued	1,650,000 shares		
Less purchased and cancelled:			
as at 31 December 1967	422,607 shares		
	1,227,393 shares		$ 5,973,000
during 1968	29,398 shares		
Outstanding 31st December 1968	1,197,995 shares	$ 5,830,000	
Redeemable sinking fund preference shares par value $25 each			
Authorized: 200,000 shares			
Issued: None		—	—
Common shares no par value			
Authorized: 10,800,000 shares			
Issued: 9,670,532 shares		48,353,000	48,353,000
		$54,183,000	$54,326,000

7. Capital surplus

The sum of $143,000 (1967 — $545,000) has been transferred from retained earnings and designated as capital surplus arising from cancellation of 29,398 (1967 — 111,942) 6% cumulative preference shares par value $4.86⅔ each.

8. Pension and retirement plans

Outstanding commitments in respect of funding of back service of employees under a trusteed pension plan amount to $3,445,000 at 31st December 1968 (1967 — $3,835,000) payable in annual instalments to 1981. The 1968 instalment was $390,000 (1967 — $390,000). There is an estimated liability of $2,868,000 in respect of various unfunded retirement allowances. Current payments under these plans, as in the past, have been charged against current operations.

Statistical Highlights/Ten Year Review

			1968	1967
Sales and earnings	Net sales	(d)	416,803	393,315
	Depreciation	(e)	4,774	5,034
	Earnings before income taxes		25,046	24,333
	Income taxes		12,664	11,592
	Net earnings		12,382	12,741
	Earned on common shares		12,029	12,375
	Per common share		$ 1.24	$ 1.28
Dividend record	On preference shares		353	366
	On common shares		7,736	7,736
	Per common share		$ .80	$ .80
Capital expenditures	On fixed assets		3,682	5,187
Financial position	Current assets	(f)	114,810	123,137
	Current liabilities		35,092	33,474
	Working capital		79,718	89,663
	Investments in non-consolidated subsidiaries, including loans and advances		30,564	14,821
	Fixed assets (before depreciation)	(g)	112,180	115,427
	Fixed assets (less depreciation)	(h)	45,141	47,993
	Debentures	(i)	2,261	2,261
	Excess of assets over liabilities		154,081	150,817
Shareholders' risk capital	Equity of preference shareholders		5,830	5,973
	Equity of common shareholders		148,251	144,844
	Per common share		$15.33	$14.98

(a) Revised to include Beau Chatel Wines Limited.

(b) 1960 revised in accordance with 1961 presentation.

(c) 1959 revised in accordance with 1961 and subsequent year's presentation to the extent that equity reserves are included under shareholders' risk capital. Effect of replacement cost valuation of fixed assets on yearly charge for depreciation, on fixed assets, on accumulated depreciation and on equity of common shareholders and effect of write down on goodwill not reflected.

(d) Not published for 1959.

(e) 1960/68 based on replacement cost; 1959 based on historic cost and including charge for fixed asset replacement.

(f) 1960/62 revised to exclude prepaid expenses and deferred charges.

(Thousands of dollars – except 'per common share' statistics)

1966(a)	1965	1964	1963	1962	1961	1960(b)	1959(c)
373,069	366,262	351,456	355,065	373,392	359,105	342,775	—
4,864	4,539	4,243	4,050	3,757	3,482	3,402	4,332
23,776	25,791	22,271	23,063	25,594	26,800	26,177	24,222
11,314	12,460	10,765	11,049	12,233	12,943	12,557	13,111
12,462	13,331	11,506	12,014	13,361	13,857	13,620	11,111
12,068	12,918	11,083	11,566	12,879	13,375	13,138	10,629
$ 1.25	$ 1.34	$ 1.15	$ 1.20	$ 1.33	$ 1.38	$ 1.36	$ 1.10
394	413	423	448	482	482	482	482
7,736	7,736	7,011	7,011	7,011	7,011	6,527	6,527
$ .80	$ .80	$ .72½	$ .72½	$ .72½	$ .72½	$ .67½	$ .67½
8,451	3,491	2,740	5,197	4,146	4,179	5,645	8,560
115,673	120,413	123,628	121,537	123,127	117,590	112,503	108,487
28,753	32,992	30,024	28,120	30,048	29,474	30,069	34,174
86,920	87,421	93,604	93,417	93,079	88,116	82,434	74,313
13,425	13,077	—	—	—	—	—	—
114,932	105,962	99,510	97,688	90,083	83,411	82,788	54,105
48,561	44,057	43,630	44,279	42,039	40,757	41,649	16,628
2,261	2,262	7,035	8,582	9,987	11,628	12,796	14,056
147,405	143,151	136,535	130,836	125,842	118,058	111,456	108,963
6,518	6,766	6,973	7,215	8,030	8,030	8,030	8,030
140,887	136,385	129,562	123,621	117,812	110,028	103,426	100,933
$14.57	$14.10	$13.40	$12.78	$12.18	$11.38	$10.69	$10.44

(g) 1960/68 based on replacement cost; 1959 based on historic cost.

(h) 1960/68 net after accumulated depreciation based on replacement cost; 1959 net after accumulated depreciation based on historic cost and including fixed asset replacement reserve.

(i) Excluding maturities within twelve months which are reflected in current liabilities.

Consolidated Statement of Source and Application of Funds

		1968	1967
Source of funds	Operations:		
	Net earnings	$12,382,000	$12,741,000
	Non-cash charges		
	Depreciation	4,774,000	5,034,000
	Deferred income taxes	(486,000)	(65,000)
	Prepaid expenses and deferred charges	(25,000)	(120,000)
		16,645,000	17,590,000
	Sale of fixed assets	896,000	410,000
	Special refundable tax	359,000	181,000
		17,900,000	18,181,000
Application of funds	Dividends	8,089,000	8,102,000
	Fixed assets	3,682,000	5,187,000
	Non-consolidated subsidiaries	15,743,000	1,396,000
	Other investments	166,000	70,000
	6% cumulative preference shares	165,000	683,000
		27,845,000	15,438,000
Working capital	Increase (decrease) in working capital	(9,945,000)	2,743,000
	Beginning of year	89,663,000	86,920,000
	End of year	$79,718,000	$89,663,000

Auditors' Report

To the Shareholders
of Imperial Tobacco Company
of Canada Limited

We have examined the consolidated balance sheet of Imperial Tobacco Company of Canada Limited and Subsidiary Companies as at 31st December 1968 and the statements of consolidated earnings, consolidated retained earnings and consolidated statement of source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances except that in the case of the non-consolidated subsidiary companies we have relied upon the reports of other auditors. Insofar as our opinion relates to information contained in the financial statements of those companies, it is based solely upon the reports of such other auditors.

In our opinion these financial statements, which incorporate the adjustment to the values of fixed assets referred to in note 2(c), present fairly the financial position of the companies as at 31st December 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the statistical highlights which are presented as supplementary information and, in our opinion, this statement presents fairly the information shown therein.

Deloitte, Plender, Haskins & Sells

Chartered Accountants
Sun Life Building, Montreal

21st February 1969.

Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire, case postale 6500, Montréal 101, Québec.